Service Retirement

A VRS member who meets eligibility requirements may apply for retirement benefits that are paid for life. Plan 1 and Plan 2 are defined benefit plans, which provide a monthly benefit. The Hybrid Retirement Plan has both a defined benefit component and a defined contribution component. In addition, an eligible Plan 1, Plan 2 or Hybrid member who enrolled in a deferred compensation plan during employment may take distributions in retirement.

A member may also choose to defer retirement until a later date, rather than apply for retirement when becoming eligible. In retirement, a member may be eligible for cost-of-living adjustments (COLA), health insurance credit (HIC) and life insurance.

Before retiring, a member can use myVRS to calculate an estimate of the monthly benefit based on retirement date and payout options. Employers can also use myVRS to create and save retirement estimates for their employees.

Eligibility for the Defined Benefit

The member's plan, hire date and employer type determine the age and creditable service requirements for service retirement. A member may receive a full, unreduced benefit when reaching age and service requirements or can retire earlier with a reduced benefit.

NOTE

A member who is actively employed in more than one position eligible for coverage under VRS (including a part-time position) must terminate all positions before the retirement date.

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Unreduced Retirement

State employees, teachers and most political subdivision employees are eligible to retire with a full, unreduced benefit when they meet the following age and service requirements:

Plan[1]	Age & Service
Plan 1[2]	Age 65 with at least 5 years or service or Age 50 with at least 30 years of service
Plan[3]	**Age & Service**
Plan 2 and Hybrid[2]	Age and service equal 90 or Normal Social Security retirement age with at least 5 years of service.

Normal Social Security retirement age is the age at which an employee is eligible for an unreduced Social Security benefit. The age is based on the employee's date of birth.

Year of Birth	Normal Retirement Age
1937 and prior	65
1938	65 years, 2 months
1939	65 years, 4 months
1940	65 years, 6 months
1941	65 years, 8 months
1942	65 years, 10 months
1943-1954	66
1955	66 years, 2 months
1956	66 years, 4 months
1957	66 years, 6 months
1958	66 years, 8 months
1959	66 years, 10 months
1960 and later	67

[1] Age and service requirements apply only to VRS Plan 1, Plan 2 and Hybrid members. JRS, VaLORS, SPORS and VRS hazardous duty employees are subject to different age and service requirements.

[2] See *Code of Virginia* §§ 51.1-153(A); 51.1-153(B)(2).

[3] Age and service requirements apply only to VRS Plan 1, Plan 2 and Hybrid members. JRS, VaLORS, SPORS and VRS hazardous duty employees are subject to different age and service requirements.

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Reduced Retirement

State employees, teachers and most political subdivision employees are eligible to retire early with a reduced benefit when they meet the following age and service requirements:

Plan[1]	Age & Service
Plan 1[2]	age 55 with at least 5 years or service or age 50 with at least 10 years of service
Plan 2 and Hybrid[2]	age 60 with 5 years of service

The amount of the reduction is based on how close the member is to meeting the requirements for a full benefit. The reduction amount is based on plan, age and years of service. Reductions are applied as follows:

Reduction by Type[4]

55/5 (for Plan 1 members)

A 0.5% reduction is applied for the first 60 months, and 4/10 of 1% for any additional months the member needs to meet age or service requirements for an unreduced benefit.

50/10 (for Plan 1 members)

The benefit at retirement is:

- The amount determined based on service credit and average final compensation (AFC), reduced by 0.5% for the first 60 months;

Plus

- 4/10 of 1% for any additional months the member needs to meet age and service requirements for an unreduced benefit;

Plus

- An additional reduction of 6/10 of 1% for each month the member is younger than 55.

60/5 (for Plan 2 and Hybrid members)

The reduction is based on whether the member is closer to:

- Full Social Security retirement age; or
- The first date on which the member would have completed 30 years of service and the age plus service equal 90.

Defined Benefit Formula

The member's defined benefit amount is calculated using a formula that uses the average final compensation (AFC), multiplier(s) and years of creditable service. The formula for the Basic Benefit payout option is outlined below. Various reduction factors are applied to other payout options.

[4] Age and service requirements apply only to VRS Plan 1, Plan 2 and Hybrid members. JRS, VaLORS, SPORS and VRS hazardous duty employees are subject to different age and service requirements.

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The member's AFC is determined by plan.[5]

Plan	AFC
Plan 1	Average of the 36 consecutive months of highest creditable compensation, whenever it appears in the employee's VRS salary history
Plan 2 and Hybrid	Average of the 60 consecutive months of highest creditable compensation, whenever it appears in the employee's VRS salary history

The following salary increases should not be reported to VRS as creditable compensation and cannot be included in a member's AFC:

- Increases specific to the individual employee and not related to a promotion;
- Increases that exceed the average increase received by other employees of the same employer holding comparable positions;
- Housing, travel, vehicle or cell phone allowances.

If an employer is found to have reported these types of increases as creditable compensation and an overpayment of retirement benefits result, VRS may recover the overpayment from the employer. For more information on creditable compensation exclusions, see the Enroll and Maintain Employees chapter of the Employer Manual or the Creditable Compensation Job Aid and Checklist.

The multiplier used in the formula is based on the member's plan. The member may have more than one multiplier.

Plan[6]	Multiplier
Plan 1	1.7% of member's AFC (hazardous duty positions may differ)
Plan 2	1.65% of member's AFC for service earned, purchased or granted on or after January 1, 2013
	1.7% of member's AFC for service earned, purchased or granted prior to January 1, 2013
Hybrid	Members hired on or after January 1, 2014: • 1% of employee's AFC;
	Plan 1 Transfers: • 1.7% for service prior to July 1, 2014; • 1% for service after July 1, 2014;
	Plan 2 Transfers: • 1.7% for service prior to January 1, 2013; • 1.65% for service from January 1, 2013 – June 30, 2014; • 1% for service after July 1, 2014;

[5] In the event of a partial plan termination, the 50/10 benefit may be determined as the actuarially calculated present value of the retirement contributions and interest in the member's account, paid out in monthly payments for life.

[6] Age and service requirements apply only to VRS Plan 1, Plan 2 and Hybrid members. JRS, VaLORS, SPORS and VRS hazardous duty employees are subject to different age and service requirements.

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Unreduced Benefit Formula

The formula for an unreduced Basic Benefit is:

	AFC			
	Multiplier			
x	Service			
	Annual Benefit	**÷ 12 months**	**=**	**Unreduced Monthly Benefit**

If the member has more than one multiplier, each period of service is calculated using the appropriate multiplier. A benefit with more than one multiplier would be calculated as follows:

AFC		AFC				
x Multiplier		x Multiplier				
x Service		x Service				
(Annual Benefit	**+**	**Annual Benefit)**	**÷ 12 months**	**=**	**Unreduced Monthly Benefit**	

EXAMPLE

A Hybrid member who transferred from Plan 2 has an AFC of $100,000 and worked four years and six months until December 31, 2012; one year and six months from January 1, 2013 until June 30, 2014; and four years starting on July 1, 2014. The member has three different multipliers and the benefit is calculated as follows:

$100,000		$100,000		$100,000			
.017		.0165		.01			
x 4.5		x 1.5		x 4			
$7,650	**+**	**$2,475**	**+**	**$4,000**	**= $14,125**	**÷ 12**	**= $1,177.08**

Reduced Benefit Formula

A member's benefit is actuarially reduced to calculate the reduced Basic Benefit:

AFC			
Multiplier			
x Service			
Annual Benefit	÷ 12 months	=	Unreduced Monthly Benefit
			x Early Retirement Factor
			Reduced Monthly Benefit

NOTE

An additional reduction factor is applied to a VRS Plan 1 member retiring under the 50/10 reduced retirement provision.

Defined Benefit Payout

A member applying for retirement can choose how to receive retirement benefits from several defined benefit payout options. A member may change the payout option

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within 30 days of the time the retirement application is approved, even if the retirement date has passed. The revised application with a new payout option must be received by VRS within the 30-day window.

Basic Benefit

The Basic Benefit is payable to the member only and does not provide a survivor benefit. During employment, a member's defined benefit contributions are kept in a Member Contribution Account (MCA). At retirement, the contributions and interest credited to the MCA are moved to the Retirement Allowance Account (RAA). A member receives a monthly defined benefit based on a formula, not on the amount of the funds that were moved from the MCA to the RAA. After the funds that transferred from the MCA to the RAA are exhausted, usually within three years of retirement, the benefit is paid from the separate employer contributions and investment earnings.

If the member retires and then dies before the balance of the funds transferred from the MCA to the RAA is exhausted, the beneficiary will receive the remaining amount. However, if the funds transferred from the MCA to the RAA are exhausted, no additional retirement benefits are payable.

Once the Basic Benefit is selected, if the member retires then returns to VRS-covered employment, the Basic Benefit must be selected in any subsequent retirements.[7]

All members are eligible for the Basic Benefit, including disability retirement applicants and members taking an early, reduced retirement.

NOTE

An early retirement reduction factor is applied if the member does not meet the age and service requirements for an unreduced benefit. Members can calculate their estimated reduced retirement benefit using myVRS.

To calculate a member's Basic Benefit, see the Unreduced Benefit Formula section and the Reduced Benefit Formula section of this chapter or use the retirement planner in myVRS.

Survivor Option

If a member selects the Survivor Option, a monthly retirement benefit is paid to a survivor after the member's death. The member's Basic Benefit is actuarially reduced

[7] See *Code of Virginia* § 51.1-165(F).

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based on the ages of the member and the survivor at the date of the member's retirement.[8] Payments continue until the survivor's death.

The survivor may be any individual(s) selected by the member. If a member elects more than one survivor, the benefit is calculated based on the age of the youngest and divided equally.

The member may choose to have any whole percentage of the monthly benefit paid to the survivor, from 10 to 100%. The smaller the percentage of a monthly benefit the member leaves to the survivor, the smaller the reduction to the member's monthly benefit.

The IRS limits the percentage of the benefit payable to a non-spousal survivor. A member who chooses a non-spousal survivor whose age difference is 11 years or more cannot select a 100% Survivor Option. The greater the age difference between the member and the non-spousal survivor, the smaller the benefit the non-spousal survivor can receive. The benefit amount that can be paid depends on:

- The age difference between the member and the non-spousal survivor;
- The age at which the member begins to receive benefits.[9]

If the survivor is the member's spouse, a percentage limitation does not apply, regardless of the age difference between the member and the spouse.

If the member has selected the Survivor Option naming the spouse, minor child or parent as the survivor, and the member then dies after a retirement application is received and scanned by VRS but before the effective date of retirement, then the survivor is eligible for either the death-in-service benefit or the Survivor Option, whichever is greater. See the Death Benefits chapter of the Employer Manual for more information.

If the member begins receiving benefits before age 70, the age difference between the member and non-spousal survivor is adjusted. The adjustment is equal to the number of years the member will receive benefits before age 70.

[8] See *Code of Virginia* § 51.1-165(B).
[9] See *Code of Federal Regulations* 26 CFR §1.401(a)(9)-6.

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EXAMPLE

The member is age 68 at retirement. The difference in age between the member and the non-spousal survivor is 30 years. The member will receive two years of benefits before age 70. Therefore, the age difference is adjusted by two years to equal 28. The maximum percentage that can be paid to the non-spousal survivor is 62%.

If the member begins receiving benefits after age 70, the actual age difference is used. Use the following chart to determine the maximum survivor percentage that may be paid to a non-spouse survivor, where "Age Difference" is the excess of the member's age over the age of the survivor, and "Percentage" is the maximum percentage of a member's benefit that may be paid to a survivor annually:

Age Difference	Percentage	Age Difference	Percentage	Age Difference	Percentage
10 years or less	100%	22	70%	33	58%
11	96%	23	68%	34	57%
12	93%	24	67%	35	56%
13	90%	25	66%	36	56%
14	87%	26	64%	37	55%
15	84%	27	63%	38	55%
16	82%	28	62%	39	54%
17	79%	29	61%	40	54%
18	77%	30	60%	41	53%
19	75%	31	59%	42	53%
20	73%	32	59%	43	53%
21	72%			44 or more	52%

If the Survivor Option is selected, there are limited situations in which the member can change a named survivor or a payout option after retirement. See the Changing Retirement Options section of this chapter for details.

Partial Lump-Sum Option Payment (PLOP)

A member who chooses the Basic or Survivor Option can also select a Partial Lump-Sum Option Payment (PLOP). The PLOP is a one-time payment paid to the member in addition to the monthly benefit,[10] and is issued after the member receives the first monthly retirement payment. The member must have worked for at least one, two, or three full years beyond eligibility for an unreduced retirement benefit to be eligible to select the PLOP.

The PLOP changes the way VRS pays the retirement benefit, not the value of the benefit, over the member's life expectancy. When a member chooses the PLOP, VRS

[10] See *Code of Virginia* § 51.1-165.01.

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calculates the member's Basic Benefit, and then reduces the benefit on an actuarially equivalent basis to reflect the payment of the lump-sum distribution.

If the member chooses the Basic Benefit with a PLOP, upon death there may be no contributions remaining in the MCA available for the beneficiary, since the PLOP is paid from the member's MCA. If the member chooses the Survivor Option with a PLOP, the benefit is calculated the same way as if the member had elected the Basic Benefit with a PLOP; however, once the benefit is actuarially reduced to reflect the payment of the lump-sum distribution, the monthly benefit is reduced further depending on the percentage the member chose for the Survivor Benefit, the age of the member and the age of the survivor. While the PLOP under a Survivor Option is also paid from the member's MCA, the survivor is eligible for a Survivor Benefit since the member elected to receive an additional reduction to the monthly benefit to provide a monthly benefit after death.

A member who selects the Advance Pension Option (APO) or who takes disability retirement is not eligible for the PLOP. A member is also not eligible to select the PLOP if the actuarial reduction in the monthly retirement benefit would result in a monthly payment that is less than $50.

The following chart summarizes the amount of the PLOP a member may select depending on the number of years worked after reaching eligibility for an unreduced benefit:

Time Worked after Reaching Eligibility for Unreduced Benefit	Amount of Lump-Sum Payment
1 year	1 times annual Basic Benefit amount
2 years	Choice of 1 or 2 times annual Basic Benefit amount
3 years	Choice of 1, 2, or 3 times annual Basic Benefit amount

A member cannot use purchased service credit or disability credits converted to service credits to meet the requirement to work one, two, or three years beyond eligibility for an unreduced retirement. The last 12, 24, or 36 months of service credit must be earned.

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A member who selects the PLOP and later returns to VRS-covered employment must select the same retirement option upon re-entering retirement.[11] At the time of the second retirement, the member does not receive another partial lump-sum distribution; however, the monthly benefit is adjusted to reflect the additional service and creditable compensation.[12]

The PLOP is subject to a mandatory 20% federal tax withholding in the year it is received and the member may elect an additional withholding. In addition, 4% state tax is withheld if the member is a legal resident of Virginia at the time of payment. If part of the lump-sum amount includes member contributions on which the member has already paid taxes, that portion is not taxed again. If the member separates from service prior to the year attaining age 55 and the member is under age 59½ at the time the PLOP payment is made, the member may be required to pay a 10% penalty on the amount of the lump-sum payment.

NOTE Age requirements are different for hazardous duty employees. See the Hazardous Duty chapter of the Employer Manual for details.

A member may defer paying taxes, and possibly eliminate the 10% tax penalty on the PLOP by rolling the taxable amount into the Virginia Cash Match Plan, an Individual Retirement Account (IRA) or other qualified plan as allowed by the *Internal Revenue Code*. An eligible employer plan is not legally required to accept a rollover. A member who wants to roll over the lump-sum payment to another plan should contact that plan's administrator to verify that the receiving plan is eligible to accept a direct rollover.

Advance Pension Option (APO)

A member retiring from service who has not attained full Social Security retirement age may be eligible for the APO. Under this payout option, the member receives a temporarily increased retirement benefit based on estimated Social Security benefits, beginning on the effective date of retirement and continuing to an age chosen by the member.[13]

The APO is payable to the member only and does not provide a survivor benefit. If the member dies before receiving benefits equal to the amount of accumulated member

[11] See *Code of Virginia* § 51.1-165(F).
[12] See *Code of Virginia* § 51.1-165.01(E).
[13] See *Code of Virginia* § 51.1-165(A)(3).

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retirement contributions plus interest (including employer-paid member contributions paid after July 1, 1980), any funds remaining in the MCA are paid in a lump sum to the designated beneficiary. Members retiring with a PLOP or under the 50/10 early retirement option are not eligible for the APO.

The age the member chooses for the benefit to reduce must be at least age 62, but no later than the member's Normal Retirement Age as specified under the Social Security Act. Social Security Normal Retirement Age ranges from 65 to 67 and is determined by the member's date of birth. See the chart in the Eligibility for the Defined Benefit section of this chapter for a listing of Social Security Normal Retirement Ages. When the member reaches the chosen age, the monthly VRS retirement benefit is decreased by the estimated Social Security benefit. The reduced benefit cannot be less than 50% of the Basic Benefit. The reduction remains in effect for life.

The amount of Social Security benefits the member will receive and the age at which the member begins to receive a Social Security benefit are unaffected by this option. The member must submit an estimate of Social Security benefits as calculated by the Social Security Administration's online Get an Estimate tool.

The APO benefit is structured as substantially equal periodic payments under the *Internal Revenue Code*. The benefit is subject to federal and Virginia income tax withholdings but there is no 10% penalty for early distribution. Payments received under the APO cannot be rolled over to another qualified plan or IRA. If a member returns to VRS-covered employment and retires again, the APO must be selected in any subsequent retirements.[14]

Lump-Sum Payments

VRS does not provide monthly service retirement payments for amounts less than $50. If a member's benefit is under this amount, a lump-sum payment is made, based on the member's estimated life expectancy at retirement. A member whose computed benefit is more than $50 per month cannot elect a lump-sum payment. The lump-sum payment is subject to a mandatory 20% federal withholding and a 4% state withholding for Virginia residents, unless rolled over to another qualified plan or IRA. A member may elect an additional federal withholding.

[14] See *Code of Virginia* § 51.1-165(F).

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Changing Payout Options

In certain situations, a member may change the Survivor Option. A member who retires under the Survivor Option may name a new survivor or revert to the Basic Benefit if:

- The original survivor dies;
- The original survivor provides VRS with written consent giving up claim to a benefit along with evidence of insurability (proof of good health);
- The survivor is the former spouse, the marriage lasted less than 20 years and the final divorce decree from the original survivor has been issued;
- The survivor is the former spouse, the marriage lasted 20 or more years, the final divorce decree from the original survivor has been issued and the former spouse dies, remarries or consents.

NOTE If there is an Approved Domestic Relations Order (ADRO) on file with VRS, benefits must be paid as directed by the ADRO, regardless of how long the marriage lasted. See the Approved Domestic Relations Orders section of this chapter for more information.

If a retiree reverts to the Basic Benefit or names a new survivor and has the benefit recalculated, no changes to the payout option can be made in the future. This is a one-time change.

Naming a new survivor may result in a decrease or increase in the benefit depending on the age of the new survivor. If naming a new survivor results in a decrease in the monthly benefit, the change becomes effective the first of the month following the month VRS processes the change.

To initiate a change in the Survivor Option, the retiree must contact VRS. The notification may be made by telephone or letter. Once this request is received, the retiree is sent a letter and an Authorization to Change Retirement Benefit Payout Option (VRS-5C). The VRS-5C must be returned to VRS within 30 days or the process will be cancelled and the retiree must contact VRS to submit another request.

NOTE A member may not make a change to the retirement benefit if the Basic Benefit or APO was chosen or if electing PLOP with the Basic Benefit at retirement.

If the request to change is due to the original survivor's death, the change is effective on the date of death. If 60 days or more have passed since the date of death, the effective date is retroactive to 60 days from the date the signed VRS-5C is received.

If the request to change is due to divorce, the change is effective on the date of the final divorce decree. If 60 days or more have passed since the date of the final divorce

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decree, the effective date is retroactive to 60 days from the date the signed VRS-5C is received. If the divorce occurs after 20 years or more of marriage, the change is not effective until the former spouse dies, remarries or consents in writing to the revocation, whichever is earliest.

If the change of survivor occurs because the original survivor relinquishes their right to the survivor benefit, the change is effective the date VRS is first notified of the retiree's intention to elect the higher Basic Benefit or change survivors. Initial notification may be made by telephone or letter; however, the retiree must sign and complete a VRS-5C to officially authorize the change to the benefit.

EXAMPLE

A retiree's survivor relinquishes rights to the survivor benefit. The retiree calls VRS on August 8 to express intent to change the survivor. The VRS-5C is sent to the member on August 9; however, if 30 days have since passed and the retiree has not returned a signed VRS-5C, VRS cancels that request and the process.

Direct Deposit

VRS deposits monthly defined benefit payments through Electronic Funds Transfer (EFT) into a retiree or beneficiary's bank, credit union, or other financial institution account. Deposits are made on the first of each month or the last working day of the preceding month if the first falls on a holiday or weekend. January is an exception. For tax purposes, VRS must issue the January payment on the first business day of the new year. The annual direct deposit schedule is published in the winter edition of *Retiree News*.

Direct deposit of the defined benefit payment is initiated at retirement as part of the application for service retirement, which can be done using myVRS or by submitting the Application for Service Retirement (VRS-5). A member who changes financial institutions after retirement must update their financial information using myVRS or by submitting an Authorization for Direct Deposit of Monthly Benefit (VRS-57). Until the update is processed, VRS continues to send retirement payments to the old account. After the new information has been processed, a confirmation notice is sent to advise the member of the effective date of the direct deposit in the new account. VRS recommends that a member not close the old account until after the first deposit is made into the new account.

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Defined Contribution Distribution Options

While Plan 1, Plan 2 and Hybrid members all have a defined benefit component, only Hybrid members also have a defined contribution component. The distribution amount of a Hybrid member's defined contribution accounts is based on contributions made during employment and the rate of return on the investments. Upon retiring or separating employment, a Hybrid member may choose to take a distribution from defined contribution accounts but is not required to do so until reaching age 73. The member may choose from the following distribution options:

- A full or partial lump sum;
- Periodic payments;
- Annuity payments;
- A partial lump sum with remainder as a period payment or annuity;
- Rollover to another employer's plan or to another qualified plan.

For more information about distribution options, contact MissionSquare Retirement at VRS-DCPLAN1 (877-327-5261) and select option 1 for participant services or option 3 for employer support services.

Periodic installment payments from the defined contribution component must be deposited directly to a checking or savings account. To request a distribution from the defined contribution component, Hybrid members should log in to Account Access on the VRS DC Plans website and select the account from which they wish to withdraw funds. The employer must have reported a separation date to VRS in order for the member to initiate an online distribution request. Separate requests are required for the Hybrid 457 Deferred Compensation Plan and the Hybrid 401(a) Cash Match Plan, as well as from any other defined contribution plans in which the member participates.

Deferred Compensation & Cash Match

Employees of the state and of participating political subdivisions and school divisions are eligible to participate in the Commonwealth of Virginia (COV) 457 Deferred Compensation Plan and Virginia Cash Match Plan.

A participant is not required to take a distribution from the COV 457 Deferred Compensation Plan or from the Virginia Cash Match Plan at retirement. The participant may continue to manage the account and withdraw funds at a later date but must

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begin taking minimum distributions from the plan by April 1 of the year following the year attaining age 73. For more information about available distribution options, visit the COV 457 Deferred Compensation Plan website or call 877-327-5261.

NOTE At the time of retirement, an eligible member who does not participate in the Virginia Sickness Disability Program (VSDP) may defer unused sick leave payments to the COV 457 Deferred Compensation Plan.

Taxes

In most cases, a retiree must pay federal and state taxes on the taxable portion of the monthly defined benefit payment. To do so, the employee indicates tax withholding information when applying for retirement using myVRS or the VRS-5. If VRS does not have this information on file, taxes are automatically withheld based on a status of single claiming zero allowances for federal income tax withholding and if applicable, zero allowances for state income tax withholding. Any withholding changes needed after retirement can be made in myVRS or by submitting a Request for Income Tax Withholding (VRS-15) form.

NOTE A member on work-related disability retirement may be exempt from taxes on the benefit. See the Disability Retirement chapter of the Employer Manual for more information.

A retiree who does not have taxes withheld may be responsible for paying estimated taxes, and tax penalties may be assessed if the withholding and estimated tax payments are insufficient.

A retiree may change the withholding amount at any time during the year through myVRS or by filing a VRS-15. A change to the withholding may be needed if the retiree marries, divorces or has other changes during the year that affect tax status. A retiree who is not claiming resident status in Virginia and will not file income taxes with the Commonwealth of Virginia must mark the block indicating no state taxes are to be withheld. VRS does not withhold taxes for other states.

In addition, the value of a retiree's basic life insurance coverage in excess of $50,000 is subject to FICA and federal and state income tax withholding. The imputed income is reported each year on a W-2 form. Any taxes withheld for FICA and federal and state income taxes are deducted from the monthly benefit.

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A member should contact a tax advisor or the Virginia Department of Taxation (if a Virginia resident) to determine actual tax liability. VRS makes every effort to provide the best tax information available, but it is the member's responsibility to ensure compliance with federal and state tax laws.

Partly Taxable Payments

A portion of each defined benefit payment may be excluded from taxable income if the member has VRS contributions that were contributed on an after-tax basis.

The IRS's Simplified Method and General Rule determines the tax-free portion of the monthly annuity. Under this method the total of the contributions made on an after-tax basis are divided by the total number of anticipated monthly payments to be received over the retiree's expected lifetime, or the combined expected lifetime of the retiree and a survivor if there are survivor benefits to be paid, up to as long as 410 months. For more information on the Simplified Method Rule, see IRS Publication 575.

Taxes on Distributions

Tax rates on distributions from defined contribution accounts vary. See the Distributions chapter of the Employer Manual for more information.

Attachments to Retirement Benefits

VRS retirement benefits are exempt from county and municipal taxes and are not subject to execution, attachment, garnishment or any other process whatsoever, except under the following conditions:

- IRS tax levies (A retiree who is subject to IRS tax levies is notified by the IRS and VRS regarding the amount and duration of the attachment;
- Debt to a member's employer;
- Child support payments;
- Marital property as stated in an ADRO.

Retirement benefits and assets created under Title 51.1 that are deemed to be marital property pursuant to Chapter 5 (Section 20-89.1 et seq.) of Title 20 of the *Code of Virginia* can be divided or transferred by a court by direct assignment to a spouse or former spouse pursuant to Section 20-107.3. [15]

[15] See *Code of Virginia* § 51.1-124.4(A).

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Approved Domestic Relations Orders

If a retiree divorces, the VRS benefit may be regarded as marital property in a property settlement. The *Code of Virginia* authorizes VRS to make direct payment to a former spouse if the court awards the spouse part of the VRS benefit. The law does not require a court to divide VRS benefits but simply authorizes VRS to make direct payment if the court divides the benefit. The court, not VRS, makes the decision whether to divide the retirement benefit and how it is to be divided. The language of the ADRO must conform to VRS requirements and must be submitted on a VRS form. See the ADRO page on the VRS website for forms and details.

Applying for Service Retirement

For comprehensive information about the retirement process, employees considering retirement within 12 months should visit the VRS Applying for Retirement page. This page contains information about required forms and provides a summary of the options a member may select.

Prior to Applying for Retirement

Before submitting retirement applications, members should consider their service credit options.

- Members should review outstanding purchases of prior service credit. All purchases must be completed before termination of employment;
- Eligible state employees should discuss with their employers whether they can convert disability credits into service, or whether they can use money from an accumulated sick leave payout to purchase service. However, employers cannot create this eligibility in myVRS Navigator until retirement dates are in the system.

Application Process

A retirement application must be received at least 60 days but no more than four months prior to the effective date of retirement. The retirement date is the first day of the month following the month in which the member last works or is last reported to VRS.

To apply for retirement, the employee should complete the online retirement application using myVRS or should submit the relevant forms to VRS. If the employee is completing the VRS-5, the employer cannot sign the form on behalf of an employee unless the employee is physically or mentally unable to sign the form. If the employer signs, the payout option must be the Basic Benefit.

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Once VRS processes the retirement application, the employer will receive a secure message, which will indicate if additional steps are needed, such as certifying hazardous duty service or processing accumulated sick leave purchases. If no additional information is needed, the employer will certify the retirement and separate the employee using myVRS Navigator.

For step-by-step instructions about how to certify retirement, view the Certifying Retirement in myVRS Navigator process guide or the Maintenance Activities course, both located in the Commonwealth of Virginia Learning Center (COVLC).

Forms and Instructions – Defined Benefit
The myVRS online retirement application incorporates the VRS-5, VRS-2 and VRS-45. Employees who apply for retirement using myVRS do not need to submit these forms. Employees who apply for retirement using the VRS-5 must also submit the VRS-2 and VRS-45.

- **Application for Service Retirement (myVRS or VRS-5)**

  The member must select a payout option, include direct deposit information and choose monthly benefit tax withholding.

  NOTE: If the member is unable to complete the application, someone with specific court authority to execute the form or someone who has durable power of attorney containing specific authorization may complete the form. If the member selects a Survivor Option, the court order must specify the name of the person who is to receive the survivor benefit or in the case of durable power of attorney, the person given the authority to name the survivor.

- **Designation of Beneficiary (myVRS or VRS-2)**

  The member uses myVRS to update the designated beneficiary for life insurance and for any defined benefit plan contributions and interest remaining. The member may instead request a VRS-2 from VRS to update this information.[16]

- **Request for Health Insurance Credit (myVRS or VRS-45)**

  The member uses myVRS or completes a VRS-45 if eligible for the HIC. Members who do not use myVRS to apply for the HIC cannot apply until after the first benefit payment is issued. (Members must have their employers complete a Certification of Employment for Health Insurance Credit Eligibility (VRS-76) if their job name was listed incorrectly in myVRS Navigator.)

  NOTE: Once the retirement benefit has been determined, a letter detailing retirement information is sent to the member. If the member is eligible for the HIC, the letter will reflect the maximum amount that can be paid. If the member does not submit a VRS-45 with the retirement application, a copy of the form is included with the letter.

[16] If a member submits a VRS-2 and enters information for benefits they are not eligible for, the ineligible data will not be displayed in myVRS. myVRS only displays eligible benefits.

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Forms and Instructions – Defined Contribution and Voluntary Savings

The following transactions must be completed online through MissionSquare by logging in to Account Access on the VRS DC Plans website. These transactions are not available in myVRS.

- **Designation of Beneficiary**

  A Hybrid member must complete this online transaction to designate a beneficiary for Hybrid defined contribution plans;

- **VRS Hybrid 457 Deferred Compensation Plan Distribution/Direct Rollover/Transfer Request** and
- **VRS Hybrid 401(a) Cash Match Plan Distribution/Direct Rollover /Transfer Request**

  A Hybrid member who wishes to take a distribution from the defined contribution account must complete these transactions online.

If a member is married or separated, the member's spouse must acknowledge the payout option chosen by the member. If the member is applying for retirement using myVRS, the spouse must check the acknowledgement box in the online application. If the member is submitting a VRS-5, the spousal acknowledgment form will be mailed to the member if applicable. The member's name will not be added to the retirement payroll until the acknowledgement is submitted and received by VRS. Any member who is unable to obtain spousal acknowledgement should contact VRS for help.

Within 31 Days after Retiring

The member must continue Optional Group life insurance coverage or convert to an individual policy within 31 days of the end of the month in which separation from employment occurs. For more information about life insurance in retirement, see the Group Life Insurance chapter of the Employer Manual.

State employees must complete the following steps within 31 days following separation:

- Elect to retain long-term care coverage under VSDP or the Virginia Local Disability Program (VLDP) Long-Term Care Plan (if eligible) by completing the Authorization of Coverage Retention Long-Term Care Plan (VRS-170) and the Protection Against Unintentional Lapse Long-Term Care Plan (VRS-171);
- Complete a State Health Benefits Program Enrollment Form For Retirees, Survivors And LTD Participants (Department of Human Resource Management Form A10656).

NOTE

VLDP and VSDP long-term care participants must be submit these forms within 60 days of separation.

Changes in Retirement Date

A member who submits a service retirement application but then decides to retire at a different date must submit a new retirement application. The employer will then receive a secure message to certify the new retirement date and to update the separation date. Once the retirement date has passed, the retiree cannot make changes.

Insurance in Retirement

A member retains Basic Group life insurance coverage into retirement at no cost, provided eligibility requirements for service retirement are satisfied at the time employment ends. For information about how this benefit begins to reduce in retirement, see the Group Life Insurance chapter of the Employer Manual.

Long-term care benefits help a member with the cost of long-term care services, such as nursing home care or at-home care to assist with bathing, eating or other activities of daily living. For details on long-term care benefits, see the COV Group Voluntary Long-Term Care Insurance chapter of the Employer Manual.

Cost-of-Living Adjustments

Retirees may receive a COLA to the monthly retirement benefit. Because VRS pays retirement benefits in arrears, the COLA is reflected in the August 1 payment. Adjustments are effective yearly thereafter on July 1 except in years of deflation or no inflation. In cases of deflation or no inflation, an adjustment will not be made.

Retirees receive a COLA on July 1 after one full calendar year from the retirement date if they:

- Retire with an unreduced or reduced benefit with at least 20 years of service;
- Retire under the Transitional Benefits Program (TBP) or the Workforce Transition Act (WTA) with a reduced benefit;
- Retire under VSDP or VLDP disability;
- Involuntarily separate.

EXAMPLE If a member with at least 20 years of service retires on September 1, 2024, the first COLA is effective July 1, 2026, payable on August 1, 2026.

A January 1 retirement date is considered to be in the previous calendar year and the retiree is eligible for a COLA after the first calendar year of retirement.

EXAMPLE If a member with at least 20 years of service retires on January 1, 2025, the first COLA is effective July 1, 2026, payable on August 1, 2026.

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If the member retires with a reduced benefit with less than 20 years, the COLA takes effect July 1 after one calendar year from the unreduced retirement eligibility date.

A retiree under the APO is eligible for a COLA on July 1 of the second calendar year after retirement. The COLA is calculated using the Basic Benefit the retiree would have received had the APO not been selected.

COLA Amount

The amount of the COLA is directly dependent upon the Consumer Price Index-Urban (CPI-U) and is based on the retiree's plan.

A Plan 1 retiree receives a maximum annual COLA of 5%:

- All of the first 3% increase in the CPI-U;
- Half of the next 4% increase in the CPI-U.

A Plan 2 or Hybrid retiree receives a maximum annual COLA of 3%:

- All of the first 2% increase in the CPI-U;
- Half of the next 2% increase in the CPI-U.

The following chart illustrates COLA increases based on the CPI-U:

If this year's CPI-U is …	Then a Plan 1 retiree receives a COLA of …	And a Plan 2 or Hybrid retiree receives a COLA of …
1.00%	1.00%	1.00%
2.00%	2.00%	2.00%
3.00%	3.00%	2.50%
4.00%	3.50%	3.00%
5.00%	4.00%	3.00%
6.00%	4.50%	3.00%
7.00%	5.00%	3.00%
8.00%	5.00%	3.00%
9.00%	5.00%	3.00%
10.00%	5.00%	3.00%

EXAMPLE

If the CPI-U is 4.12%, a Plan 1 retiree receives a COLA of 3.56% (all of 3% plus half of 1.12%) and a Plan 2 or Hybrid retiree receives a COLA of 3.00% (the maximum amount allowed).

Because COLAs are based on the rate of inflation, they are not guaranteed to occur each year. If there is no increase or even if there is a decrease in the CPI-U, the monthly retiree benefit amount will not be reduced. COLA rates are published on the VRS website.

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Health Insurance Credit Program

The HIC is a benefit designed to assist retirees with the cost of health insurance coverage. The amount of the HIC is a dollar amount set by the General Assembly for each year of creditable service at retirement.[17] The type of employer for which the member worked or the position in which a member worked determines the amount of the HIC. The rate differs for employees of state agencies, school divisions and political subdivisions, and depends on the position held. Political subdivisions and school divisions can elect to increase the credit for certain eligible employees to receive an additional monthly credit. The political subdivision or school division pays the cost of the additional credit.

The credit applies only to the retiree's portion of the premium and cannot exceed the maximum amount established by the General Assembly or the actual premium paid. The credit terminates upon the cancellation of a health insurance plan for which the retiree was paying a monthly premium, the retiree's death or return to work. For the credit to maintain its non-taxable status, payments to retirees must be made as reimbursements.

Members who choose to defer retirement are eligible for the HIC at retirement, provided they meet HIC eligibility requirements in effect at the time of retirement.

Eligibility

To receive the health insurance credit, a retiree must meet the following eligibility criteria:

- The retiree must have accumulated 15 or more years of total VRS creditable service, covered service under an ORP, or a combination thereof.
- The retiree must be enrolled and paying a health insurance premium for individual coverage, coverage under a spouse's plan or employer-sponsored health insurance plan, Medicare Part B, Medicare Part D, or dental or vision coverage.
- The retiree must have retired as:
  - An employee of a state agency (as a VRS or ORP participant);
  - A teacher or administrative staff member of a local school division, including superintendents who participate in the Optional Retirement Plan for School Superintendents (ORPSS);
  - An employee of a local school division who was employed full time, but who was not classified as a teacher or administrative staff;

[17] See *Code of Virginia* §§ 51.1-1400 through 1405.

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- An employee of a political subdivision that participates in the HIC program.[18]
- An employee of a local social services department; a general registrar or employee of a general registrar; or a local constitutional officer or employee of a local constitutional officer.

Employees of a State Agency

A state employee who retires may be eligible for the HIC. A state employee is defined as any person employed full-time on a salaried basis and whose position is not considered a temporary or provisional appointment.[19] A state employee's salary is funded at least in part by the Commonwealth of Virginia and is paid no more often than biweekly. The governor, lieutenant governor, attorney general and members of the General Assembly are considered state employees.

ORP and ARP Participants

An employee who participates in an ORP or an Alternative Retirement Plan (ARP) may also qualify for the HIC.

An ORP or ARP participant must meet all of the following requirements to qualify:

Have a minimum of 15 years of coverage under the ORP/ARP or a combination of VRS service credit and ORP/ARP service that equals 15 years;

NOTE: If the ORP/ARP employee has creditable service years with VRS, then VRS will calculate those years and add the service years to the employee's record. This counts toward the employee satisfying the service requirement for HIC.

Meet age and service requirements for reduced or unreduced retirement under the VRS plan the employee would have been eligible for based on hire date, had the ORP not been elected;

Have the agency benefit administrator complete the ORP/ARP Health Insurance Credit Employer Certification of Service (VRS-75) to certify eligibility for the credit. This form is submitted to VRS by the employer when the employee applies for retirement and elects a periodic payment from the defined contribution plan. State ORP/ARP employees who are receiving long-term disability benefits under an employer-sponsored disability plan are eligible to receive the maximum credit regardless of service;

NOTE: VRS does not have data to determine eligibility for this group of retirees; therefore, the HIC cannot be paid until the employer has submitted the VRS-75 to VRS. Disability eligibility must be recertified/validated by the employer every two years through the submission of an updated VRS-75. If VRS does not receive an updated VRS-75 extending disability, HIC payments will be stopped.

[18] Some retirees are eligible even if they retire from a political subdivision that does not elect the credit. See the Employees of a Political Subdivision section for more information.

[19] See *Code of Virginia* § 51.1-124.3.

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Teachers and Administrative Staff

Teachers and administrative staff who retire may be eligible for the HIC. A teacher is defined as any person who is regularly employed full-time on a salaried basis as a professional or administrative employee of a local school division.[20]

NOTE A school superintendent who participates in ORPSS or an alternative defined contribution plan may qualify for the HIC in accordance with the guidelines established for determining the credit for retired teachers.

Other Employees of a Local School Division

School employees who are not teachers or administrative staff may be eligible for the HIC. To be eligible, these employees must have been employed by the local school division on a full-time basis.

Employees of a Political Subdivision

Political subdivision employees of counties, cities, towns and other local entities may be eligible to receive an HIC if their governing bodies elected to participate in the program. This category also includes individuals who work in schools but who are employed by the political subdivision, rather than by the school division.

A political subdivision that elects to offer the HIC to employees must send a resolution to VRS authorizing participation in the HIC program. An election to participate is irrevocable.

NOTE A retiree of political subdivision that has not elected to offer the HIC and who has at least 15 years of service credit as either a state employee or a teacher, but not a combination of both, may be eligible for the HIC.

Social Services Employees, General Registrars and Local Constitutional Officers

A retiree with 15 years of creditable service with a local social services department, or as a general registrar or one of their employees, or as a local constitutional officer or one of their employees, may be eligible for the HIC. These retirees may be eligible even if they retire from a political subdivision that has not elected to offer the HIC.

[20] See *Code of Virginia* § 51.1-124.3.

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Local constitutional officers include treasurers, commissioners of the revenue, commonwealth's attorneys, circuit court clerks, sheriffs and employees of any of these, including sheriffs' deputies.[21]

General Assembly Members

A General Assembly member may elect to participate in or continue to participate in the active state health insurance plan. However, if the General Assembly member participates in the active state health insurance plan, the state retiree HIC is not payable.

A General Assembly retiree who is otherwise eligible for a HIC for service other than state and who chooses to participate in the state active health insurance plan is eligible for the HIC. A member who elects to participate under a spouse's health insurance plan or who is covered by an individual health insurance plan or by Medicare Part B or Medicare Part D, and who is paying a monthly premium is also eligible for the HIC. Reimbursement applies only to the retiree's portion of the premium.

Upon retirement from the General Assembly, the member is eligible to enroll in the State Retiree's Health Benefits Program provided enrollment occurs within 31 days of retirement on an immediate annuity. A retiring member who has 15 or more years of service credit and who participates in a qualified health insurance plan(s) and is paying a monthly premium for coverage is eligible for the state HIC upon retirement from the General Assembly.

If the member is eligible for the HIC based upon retirement from a school division or political subdivision, they are eligible for the applicable HIC beginning with the first month of retirement from the non-General Assembly employer, provided they are enrolled in a qualified health insurance plan(s) and are paying a monthly premium.

Only one employer will pay the HIC and generally the member's last employer determines eligibility for the credit. When the General Assembly member later retires from the General Assembly, the HIC will be adjusted to include the credit for the service earned as a General Assembly member.

[21] See *Code of Virginia* § 51.1-124.3.

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Amount of the Health Insurance Credit

If a member has 15 years and 1 month of service, the service rounds up to 16 years. However, a member must have 15 full years of service to be eligible. A member with 14 years and 11 months of service cannot round up to 15 years to meet eligibility requirements.

To determine the HIC amount, round the total creditable service up to the next full year and multiply by the dollar value in the following chart:

Retiree type	Amount per year of service	Maximum credit per month (based on 30 years of service)
State		
Employees of state agencies (including participants in a state ORP or ARP)	$4.25	no cap
School Divisions		
Teachers and administrative staff	$4.00	no cap
School division employees other than teachers	$1.50	no cap
(if the school division elects an enhanced HIC)	$2.50	no cap
Political Subdivisions		
Employees of counties, cities, towns and other entities if the political subdivision offers the HIC	$1.50	$45.00
Local social services employees	$1.50	$45.00
(if the political subdivision elects an enhanced HIC)	$2.50	$75.00
General registrars and their employees	$1.50	$45.00
(if the political subdivision elects an enhanced HIC)	$2.50	$75.00
Local constitutional officers and their employees	$1.75	$52.50
(if the political subdivision elects an enhanced HIC)	$2.75	$82.50

Enrollment

The retiree enrolls in the program by entering HIC information online using myVRS or by completing a VRS-45. This information does not need to be completed if the retiree is enrolled in the State Retiree Health Benefits Program or participates in an employer-sponsored plan for which VRS is deducting health insurance premiums.

A retiree covered as a dependent under an active state employee's health insurance coverage is eligible to apply for the HIC by updating HIC information online using myVRS or by completing a Request for Health Insurance Credit (VRS-45). Reimbursement applies only to the retiree's portion of the premium.

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The retiree should notify VRS immediately of policy cancellations or premium changes. VRS requires the retiree to provide written proof of the new health insurance premium amount and the effective date of the change to the premium. The retiree may report these changes to VRS through myVRS or by completing a VRS-45. If the retiree fails to notify VRS of cancellation or changes in the amount of the health insurance premiums that cause an overpayment of health insurance credits, the retiree is responsible for repaying VRS. There also may be federal and state tax consequences if a retiree receives reimbursements that exceed the cost of the retiree health premiums.

Once a retiree begins to receive the HIC, the credit continues until the retiree notifies VRS otherwise. A retiree is not required to submit proof of payment of insurance premiums each month to be reimbursed. As long as VRS processed a reimbursement within the past year, the HIC is automatically processed.

NOTE: ORP retirees cannot apply for the HIC online.

Payment of the Health Insurance Credit

When an eligible retiree has health insurance premiums deducted from the VRS monthly benefit payment, the HIC reimbursement amount is paid as part of the monthly retirement benefit payment. The retiree does not need to submit a VRS-45 when VRS deducts health insurance premiums from the monthly retirement benefit payment unless the retiree has health insurance coverage other than the coverage for which VRS is deducting premiums.

NOTE: ORP/ARP retirees eligible for the health insurance credit receive a monthly check for reimbursement.

When an eligible retiree submits HIC information either online using myVRS or by submitting a VRS-45, the reimbursement process is automatic. Reimbursement is made for one month at a time and the eligible retiree can qualify for retroactive reimbursement up to a maximum 12-month period from the date VRS receives the information or to the date of eligibility, whichever is applicable.

The HIC reimbursement amount is based on the lesser of the eligible retiree’s portion of the premium amount paid, less any subsidy payments provided by sources other than VRS, or the HIC amount. A participant who cannot determine the correct portion

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of the premium is reimbursed the lesser of: one half of the premium amount paid, less any subsidy payment provided by sources other than VRS; or the HIC amount. The HIC may be applied to multiple policies but cannot exceed the maximum HIC amount the retiree is eligible to receive.

Working after Retirement

After retirement, a VRS retiree can work for any employer that does not participate in VRS and continue to receive retirement benefits. If the retiree returns to covered employment with a VRS-participating employer, the monthly defined benefit payment will cease and the retiree will again become an active member. ORP distributions must cease unless the participant has a payout annuity.

Covered employment is any full-time permanent position that provides VRS benefits. Some part-time permanent positions with state agencies and public colleges and universities also are covered under VRS. See the Membership chapter of the Employer Manual for more information.

NOTE

An ORP retiree is required to stop distributions from the ORP upon their return to covered employment. The employer must submit a Notice of Return to Covered Employment for ORP Retirees (VRS-7ORP) when returning to work in a position covered under VRS, including an ORP or an ARP. The exception is an ORP participant who has purchased an annuity. Annuity payments will not stop if the retiree returns to covered employment.

Non-covered employment with VRS-participating employers includes temporary, part-time hourly and adjunct faculty positions. Non-covered positions do not provide eligibility for benefits. Some permanent salaried part-time state positions are covered under VRS. In many cases, the retiree can accept non-covered employment with a VRS-participating employer and continue to receive retirement benefits.

To avoid overpayments, an employer should add a retiree returning to work into myVRS Navigator as soon as possible.

An employer who wishes to hire a retiree as a non-covered part-time employee should:
Have no pre-arranged employment commitment with the retiree at the time of retirement;
Ensure the retiree is not expected to perform all the duties required of the pre-retirement, full-time position;
Evaluate the need for the position periodically if it does not have an end date;

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Structure the position so the hours worked are at least 20% less than a full-time position. Position descriptions should clearly define the difference between part-time and full-time positions requiring the same skills, experience and knowledge;

Ensure that the employee has at least a full calendar month break in service during a normal work period if returning to a non-covered position with the pre-retirement employer. If returning to work in a non-covered position with a different employer, the full calendar month break in service is not required.

NOTE

If the retiree works for two VRS employers and both positions are non-covered, their combined work hours must still be 20% less than a full-time position.

The Commonwealth of Virginia, including all state agencies and public colleges and universities, is considered one employer.

EXAMPLE

The retiree's employer prior to retirement was the Department of Motor Vehicles. The retiree now wants to work in a position with the Department of Corrections in a position not covered under VRS. The retiree must have a full calendar month break in service from the Department of Motor Vehicles before starting part-time hourly work at the Department of Corrections to continue receiving retirement benefits. The part-time hours worked should be 20% less than that of a full-time position.

Each local school system and local government, including cities, counties, towns, commissions, authorities and other political subdivisions, is a separate employer.

EXAMPLE

A member retired from Henrico County Public Schools and wants to work with Hanover County Public Schools in a position not covered under VRS. The member is not required to have a full calendar month break in service from Henrico County Public Schools before beginning part-time hourly employment with Hanover County Public Schools to continue receiving retirement benefits.

Upon leaving covered employment and retiring again, the retirement benefit will be calculated using the new retirement date and will include the additional service credit as well as any increase to the AFC. The retiree must select the same payout option that was chosen at the first retirement. Any COLA earned prior to returning to covered employment is lost, as are any retirement credits provided under the WTA and the TBP. For assistance with retirees who are returning to work, see the Return-to-Work Checklist for Employers.

Federal Government Requirements

VRS is a qualified pension plan as defined by the IRS. The IRS requires a severance of employment for a member to be eligible to receive a plan distribution. To ensure a

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severance in employment occurred, VRS requires that a member have a least a full calendar month break in service during a normal work period before returning to non-covered employment with the pre-retirement employer.

NOTE

Non-covered employment is a part-time position with a VRS-participating employer. Non-covered positions do not provide eligibility for benefits. Part-time positions typically require less than 80% of the hours of comparable full-time permanent positions. Some full-time positions may be considered non-covered if they are temporary and require less than 80% of the hours per year that would be considered full-time and permanent for that position.

The break-in-service requirement does not apply if the member returns to non-covered employment with a different VRS-participating employer or any employer who does not participate in plans administered by VRS. This full calendar month break must be over a period the retiree would normally work.

Teachers and faculty on contracts returning to work with the same employer, who normally do not work during the summer months, cannot count the summer months as the break-in-service period. Summer school employment and substitute teaching are also considered working and cannot count toward the full calendar month break-in-service period. The break-in-service period must begin with the start of the school or academic year. The retiree must not work for a full calendar month from the end of the contract, excluding the summer break.

EXAMPLE

If a contract period runs August 25, 2023 to June 14, 2024, the end date of this contract is June 14, 2024 but the months of July and August are considered summer months that do not count toward the break in service. The break-in-service month begins September 1, 2024, so the retiree may return to the same employer in a non-covered position no earlier than October 1, 2024.

A retired teacher who selected an Early Retirement Incentive Program (ERIP) that requires the retiree to work a certain number of days during the upcoming contract year in a non-covered teaching position, will continue to receive VRS retirement benefits as long as there is a bona fide break of at least a full calendar month and they continue meet the requirements of non-covered employment.

Break-in-Service Rules

An employer who hires a retiree in a non-covered position must comply with regulations that govern bona fide break-in-service rules and other return-to-work requirements. In addition, the employer may not hire a retiree in a covered position

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while the employee continues to receive a retirement benefit. If an employer disregards the break-in-service rules or the rules governing the hours to be worked in a non-covered position by a retiree, the retiree's benefit will be adjusted going forward and VRS may collect the overpayments from the employer.

The break in service of one calendar month is required by VRS; however, the federal Affordable Care Act requires longer separation periods in some circumstances. A retiree should contact the potential employer's human resource office for more information before returning to work in a wage position.

Critical Shortage Positions in Schools

VRS Plan 1, Plan 2 and Hybrid plan retirees may continue to receive service retirement benefits if working full-time in a critical shortage area as a teacher, principal, assistant principal, specialized student support personnel or as a bus driver.[22] Members of the State Police Officers' Retirement System (SPORS), the Virginia Law Officers' Retirement System (VaLORS) and the Judicial Retirement System (JRS) are not eligible for critical shortage provisions. Critical shortage positions are considered temporary and the agency should recruit yearly to fill the position prior to hiring or re-hiring a retiree in a critical shortage position. To be eligible for a critical shortage position, the retiree must:

- Be fully licensed by the Virginia Department of Education (DOE) for teacher or administrative positions; meet DOE eligibility for bus drivers; and meet health and behavioral health licensing requirements in the *Code of Virginia* for specialized student support positions;
- Serve in a teaching position identified annually by the DOE as critical shortage, or as a principal, assistant principal, specialized student support personnel, or bus driver in a critical shortage position as defined by the *Code of Virginia*;
- Have a break in service of at least six months following the effective date of retirement, and not have worked during that time for any VRS-participating employer in any capacity including part-time or volunteer work or for a contractor working for a VRS-participating employer;
- Have not retired with a reduced retirement combined with the ERIP, WTA or TBP;
- Not be receiving a VRS disability retirement.

The DOE annually designates critical shortage teaching areas; however, school divisions may also designate critical shortage positions for school principals and assistant principals, specialized student support personnel and bus drivers if there are three or fewer qualified applicants for the position.[23]

[22] See *Code of Virginia* § 51.1-155. All critical shortage provisions expire July 1, 2028.
[23] See *Virginia Administrative Code* 8VAC20-650.

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A retiree employed in a critical shortage teacher or administrative position must complete a Certification of Eligibility for Critical Shortage Teachers or Administrators (VRS-160). A retiree employed in a critical shortage bus driver position must complete a Certification of Eligibility for Critical Shortage Bus Drivers (VRS-160D). A retiree employed in a specialized student support position must complete the Certification of Eligibility for Critical Shortage Specialized Student Support Positions (VRS-160S). These forms must be submitted when the retiree is initially hired and must be resubmitted for each year the retiree continues to be employed in a critical shortage position. The employer must certify the form and send it to VRS.

The hiring school board is required to submit employer contributions monthly based on the annual salaries of retirees in these positions. For details about enrolling a retiree returning to work in a critical shortage position, visit the Hiring VRS Retirees page on the employer website.

Retiree School Security Officers

A member who retired under VaLORS, SPORS or as an eligible sworn law enforcement officer may return to work as a retiree school security officer in a Virginia school division. An eligible retiree employed in a retiree school security officer position must complete a Certification of Eligibility for Retiree School Security Officers (VRS-160C) at the time of employment and must resubmit the form each school year the retiree works in that position. The employer must certify the form and send it to VRS. Both the retiree and the employer must certify that the retiree:

- Does not have a pre-arranged commitment, either verbal or written, with the school division before the retirement date;
- Has a bona fide break in service of at least six consecutive months between retirement for service as a sworn law-enforcement officer and employment as a retiree school security officer. This break in service means not working in any full-time or part-time position with a VRS-participating employer, or for a contractor with any VRS-participating employer;
- Did not retire with a reduced VRS benefit under any ERIP;
- Did not retire under the WTA or TBP with an enhanced VRS benefit;
- Is not on VRS disability retirement.

VRS retirees working in the critical shortage and retiree school security officer positions continue to receive their retirement benefits and retain their retiree status. They are not eligible for VRS benefits provided to active members. They do not earn service credits or pay member contributions. However, the hiring school board is required to submit

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employer contributions monthly based on the annual salaries of retirees in these positions.

For details about enrolling a retiree in a critical shortage or retiree school security officer position, see the Hiring and Reporting School Security Officers or School Resource Officers job aid or the Hiring VRS Retirees page on the VRS employer website.

General Assembly Members

A retiree receiving a retirement benefit based on non-General Assembly service may serve in an elected position in the General Assembly and continue to receive a retirement allowance. When the retiree ceases to be a member of the General Assembly, the benefit will be recalculated to include the General Assembly service.

General Assembly members are eligible for coverage under the active employee state health insurance program during their service. Upon retiring from the General Assembly, they are eligible to participate in the State Retiree Health Benefits Program, provided they retire from the General Assembly on an immediate annuity and submit DHRM Form A10656 within 31 days of separation.

All Other VRS-Covered Positions

A VRS retiree who returns to work for a VRS-covered employer is subject to benefit and employment restrictions (except for retiree school security officers and employees in designated critical shortage positions). For full-time and certain covered part-time positions, re-employment after retirement will cause retirement benefits to cease. The retiree will be returned to active member status and will begin to earn service credits and make member contributions. Their life insurance coverage and other benefits will be the same as an active member. See the Hiring VRS Retirees page on the VRS employer website and the Group Life Insurance chapter of the Employer Manual for more information.

Social Security rules govern the maximum amount a person may earn and remain eligible for Social Security benefits. Employers should advise retirees who receive Social Security benefits to consult their local Social Security office concerning re-employment.

A participant in the Commonwealth of Virginia 457 Deferred Compensation Plan or Virginia Cash Match Plan who returns to salaried or wage employment with an

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employer who offers these plans can continue plan distributions started during the period the participant was not employed. A participant may not initiate a distribution once returning to employment unless the participant has reached age 70½ and qualifies for an in-service distribution. A retiree returning to employment may resume contributions to the Commonwealth of Virginia 457 Deferred Compensation Plan but may not be eligible for the Virginia Cash Match Plan unless returning to salaried employment.

Deferring Retirement

A member who leaves VRS-covered employment and is vested can defer receiving a retirement benefit until a later date (if already meeting age and service requirements) or wait until reaching age and service requirements, provided they do not take a refund of member contributions and interest. The member should complete a Name and Address Declaration for Deferred Members (VRS-3A) before leaving their position.

When the member applies for retirement, the benefit is calculated based on the creditable service and AFC at the time of separation. The application can be backdated no more than 90 days from the date VRS receives the application if all of the following apply:

- The retirement date is on the first of the month;
- The retirement date is not before the member was last reported;
- The member is vested;
- The member meets age and service requirements.

NOTE

The IRS requires deferred members to begin distribution of their retirement benefit in the year in which they turn 73. This requirement applies only to members who are deferred, not to members who are active, on leave for a short-term or long-term disability, or who are working part time for a VRS participating employer.

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